

Rating Action: Moody's assigns Aa2 to Snohomish County P.U.D. 1, WA Electric Ent's electric system 2021 bonds; Outlook is stable

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Approximately \$80 million of debt securities affected

New York, June 01, 2021 -- Moody's Investors Service has assigned Aa2 to Snohomish County Public Utility District 1, WA Electric Enterprise's (SnoPud) \$80 million of Electric System Revenue Bonds, Series 2021A (Tax- Exempt). The outlook is stable.

RATINGS RATIONALE

SnoPud's Aa2 rating reflects Snohomish County, WA's (Aa1 stable) strong socio-economic indicators, the district's conservative management, and a historical willingness to raise rates when necessary that has led to the historical debt service coverage ratio (DSCR) averaging around 2.0x, ample liquidity totaling 212 days cash on hand at year-end 2020, and low adjusted debt ratio at 45% at year-end 2020. On the economy, the unemployment rate in Snohomish county has steadily improved to 6.3% as of March 2021 after peaking at 19.3% in April 2020 and the rate is similar to the US average of 6.2%.

Further supporting the district's credit quality is its long-term power supply agreement with Bonneville Power Administration (BPA, Aa2 stable) for most of the utility's energy requirements and a more than 40% decline in scheduled annual debt service that began in 2020. The latter provides the district significant financial flexibility which was demonstrated in 2020 when the district's DSCR improved to around 2.6x compared to 1.8x in 2019 even though higher Moody's adjusted higher operating expenses contributed to a 17% drop in overall net revenues. Looking forward, we expect the district to maintain DSCR at or above 2.0x with days cash on hand averaging around 225 days.

The rating action also incorporates some wholesale price exposure, both direct and indirect hydrology risk under the BPA contract, and modestly above average retail rates for the state.

RATING OUTLOOK

The stable outlook reflects the utility's expectation of continued strong financial performance including consolidated DSCR averaging at least 2.0x times and strong liquidity averaging 225 days cash on hand.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- The utility's rating could be upgraded if the utility is able to sustain DSCR averaging well above 2.5x and liquidity averaging well over 250 days cash on hand.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- The utility's rating could be downgraded if the DSCR drops below 1.7x or liquidity drops below 175 days cash on hand on a sustained basis, the utility is no longer managed conservatively from an energy procurement or leverage standpoint or if the economic service area significantly weakens on a sustained basis.

LEGAL SECURITY

Electric System's bonds have a pledge of net electric system revenues and require that the district set rates to maintain a 1.25 times DSCR including draws and deposits from the rate stabilization fund. Also, the Electric System bonds have a cash funded, debt service reserve sized to the maximum annual interest which is considered weak on a comparable basis.

The Generation System bondholders benefit from a pledge of net revenues of the Generation System and the Electric System is obligated to pay all of the Generation System's costs irrespective of generation levels. The Generation System bonds have a cash funded, debt service reserve account sized to the lesser of 10% of bonds outstanding, maximum annual debt service or 125% of average annual debt service.

USE OF PROCEEDS

Proceeds from the 2021A electric and generation revenue bonds will be used to fund capital spending and to fund incremental deposits into the debt service reserve.

PROFILE

SnoPud operates a utility system that primarily generates and delivers electricity to all retail customers in Snohomish County and Camano Island, which are located in the western part of Washington State. The district also operates a Water System (separately financed) that has over 20K customers. Snohomish County comprises 2,100 square miles and has a population of over 800,000.

METHODOLOGY

The principal methodology used in this rating was US Public Power Electric Utilities with Generation Ownership Exposure Methodology published in August 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1170209 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Clifford Kim
Lead Analyst
Project Finance
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Angelo Sabatelle
Additional Contact
Project Finance
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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